British Columbia Buildings Corporation

annual report

1984

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The British Columbia Buildings Corporation is a Crown corporation established in 1976 to bring strict accountability to the provision and allocation of government accommodation.

Using a market based pricing system to the maximum extent possible, the Corporation establishes rents which are charged to government ministries for the space they occupy. The Corporation thus fulfills its mandate to be revenue dependent, and ministry budgets more accurately reflect the real costs of Government programs.

The Corporation represents a unique departure from the ministry or department approach to the provision and maintenance of accommodation for government in three important ways:

- Overall direction is vested in a Board of Directors on a basis broadly comparable with the private sector.
- Operations are financed through revenue derived from charging for the space and services provided.
- Capital projects are financed through borrowings and internally generated funds.

The Corporation is accountable to the Legislature through the Provincial Secretary and Minister of Government Services who is a member of the Board of Directors.

Five Year Highlights

	Year Ended March 31				
	$000's				
FINANCIAL	**1984**	1983	1982	1981	1980
Gross Revenue	**227,059**	206,708	179,114	154,019	136,886
Operating Income	**65,096**	54,236	37,261	30,763	25,540
Interest	**56,584**	37,657	20,540	13,718	7,198
Net Income	**8,512**	16,579	16,721	17,045	18,342
Cash Flow	**41,869**	43,348	37,058	34,726	35,084
Total Assets	**854,769**	812,210	538,094	456,043	444,316
Operating Income Margin	**28.7%**	26.2%	20.8%	20.0%	18.7%
Return on Investment	**9.8%**	9.1%	9.0%	8.0%	7.2%
Return on Equity	**8.1%**	17.0%	18.0%	19.7%	17.9%

	Square Metres				
PROPERTIES					
Owned	**1,440,424**	1,382,881	1,334,991	1,244,951	1,101,695
Leased	**448,675**	465,316	434,544	410,170	356,778
Maintained	**159,321**	147,273	298,585	332,890	330,000
	2,048,420	1,995,470	2,068,120	1,988,011	1,788,473
STAFF					
Authorized Permanent Complement	**984**	1,134	1,180	1,208	1,233
Average Space Managed per Employee (square metres)	**2,125**	1,760	1,753	1,645	1,450

Province of
British Columbia
OFFICE OF THE MINISTER

Ministry of
Provincial Secretary
and Government Services

Parliament Buildings
Victoria
British Columbia
V8V 1X4

June 5, 1984

His Honour
The Honourable Robert G. Rogers
Lieutenant-Governor of the Province
of British Columbia

MAY IT PLEASE YOUR HONOUR

The undersigned has the honour to present the Annual Report of the British Columbia Buildings Corporation for the year ended March 31, 1984.

James R. Chabot
Provincial Secretary and
Minister of Government Services

President's Remarks

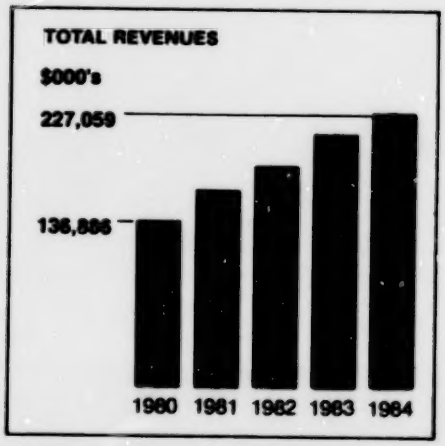
Our sixth year of operation will be remembered for the successful implementation of many initiatives to further reduce corporate and client accommodation costs. The achievements outlined in this report would not have been possible without the active co-operation and assistance of our employees, our clients and our Board. My particular thanks are extended once again to Mr. Tom Toynbee, Chairman of the Board, for his personal interest in the Corporation and for his valuable, ongoing counsel. Sincere thanks are also extended to Mr. Gil Hardman, President of B.C. Place, who ended his three-year term as a Director on January 31. His conscientious and helpful contributions will be missed by both the Board and by management.

Effective February 1, we welcomed Mr. Evan Wolfe back to our Board. Prior to his retirement from politics in 1982, Mr. Wolfe was a member of the Board in his capacity as Provincial Secretary and Minister of Government Services.

Financial Overview

The Corporation recorded a net income of $8.5 million compared to $16.6 million in 1982/83. An increase of $18.9 million in interest expense, as well as a $3.4 million one-time cost of an early retirement incentive program, were major factors contributing to the reduction in net income.

An important measure of internal fiscal restraint, the operating income margin, rose to 28.7%, an increase of 2.5 percentage points over 1982/83 and 10 percentage points above the 1979/80 level.



Revenues increased by $20 million in 1983/84.

Return on investment also continued its steady improvement, reaching 9.6%. Return on equity declined to 8.1% mainly due to the increased interest cost.

Revenues increased by over $20 million primarily due to the full year impact of major projects completed in 1982/83 and the commissioning of newly completed capital projects in 1983/84.

Return on investment continues to show steady improvement.

Major Construction Projects

During the year, 14 major projects with total capital costs of $61 million were completed. By contrast, only three new projects exceeding $1 million each in capital value were initiated and the total outstanding capital cost to completion of all active, major projects fell to $24 million by year end. All projects completed were, on average, within original budgets and schedules.

In view of the drastically reduced construction activity, the Development Group is broadening its role from one of managing building design and construction to that of conducting and implementing the results of portfolio reviews of the Corporation's major tenancies.

Human Resources

The Corporation ended its year with 206, or 18.2%, fewer permanent positions than it had at the beginning of the year. After adding 36 staff, who were transferred to the Corporation along with new responsibilities, the net

staff reduction was 170 positions. Of the total positions eliminated, 95 were through normal attrition, while the other 111 resulted from the implementation of a highly successful early retirement incentive program.

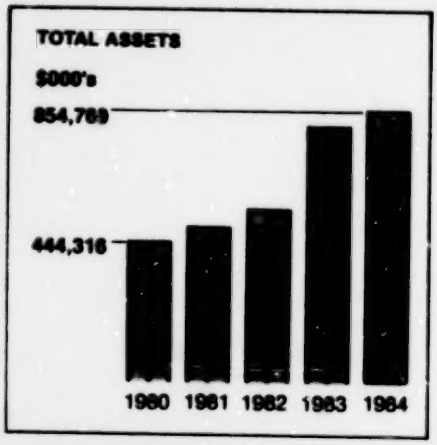
Some 53% of eligible staff accepted the early retirement offer. The one time total cash cost of the program was $3.4 million. However, the resulting cost avoidance for 1984/85 is estimated conservatively at $2.9 million, yielding an impressive 14-month payback.

The Corporation's year end manpower was 58% of the level which existed in the Ministry of Public Works in 1977 prior to its replacement by the Corporation. This was attained despite the absorption of some 90 employees, with related responsibilities, from other organizations during the past six years. When these transfers are taken into consideration, the comparable statistic becomes 52%.

We are proud of our dramatic accomplishment in this area, particularly because it has been achieved over time with no layoffs and with the high degree of employee co-operation, which was necessary to make such drastic reductions possible without sacrificing service levels to our clients. Despite these reductions to date, our long range manpower plan shows a continued, attrition-based decline in staff numbers over the next several years. I was pleased to be able to personally explain the details of this plan, and the logic behind it, to all employees in 36 group meetings around the Province during the last quarter of the fiscal year. I believe that our employees understand and accept the continuing need to reduce our permanent complement to the lowest level at which we can provide economic yet efficient service to our clients. At the same time, they appreciate the Board's and my sincere commitment to achieving any such reductions only through attrition.

Portfolio Dynamics

As our clients reduced staff and eliminated programs, large quantities of owned and leased space were returned to the Corporation. An aggressive disposal program resulted in the sale of 76 properties during the year which limited our non-revenue producing vacancy factor to only 2.51%, nevertheless an increase from 1.39% in the previous year. Proceeds from sales amounted to $9.1 million against book values totalling $9.7 million, for a net write down of $0.6 million.



Total assets grow by $43 million in 1983/84 with the completion of 14 major projects.

Despite these property sales and the non renewal of many expiring leases, our portfolio grew by 2.7%. This growth was primarily attributable to the completion of the 14 major projects. Now that projects in progress are down to minimal levels, our portfolio will begin to decline. An estimated reduction of some 130,000 square metres, or 6.4% of the current portfolio, is forecast over the next five years.

We anticipate a continued, controlled increase in our vacancy factor in 1984/85, after which it is expected to return to less than 1.0% by the end of 1988/89.

CORPORATION COST REDUCING INITIATIVES

Staff Reduction

The savings accruing from our ongoing attrition based staff reduction program continued to be our most important and most challenging initiative. Not only are major savings resulting, but also, the program serves as a positive motivating force as employees at all levels are constantly challenged to find more efficient ways to discharge their responsibilities. As well, substantial career opportunities are often created for our remaining staff, as we move to consolidate positions and otherwise reorganize responsibilities.

Organization Rationalization

In 1982/83, we eliminated one of our four Regional Offices, and two of our 20 Building Management Unit offices. We continued this program of rationalization in 1983/84 by eliminating three BMU's. Cranbrook was combined with Nelson, Dawson Creek with Prince George and, in late March, Tranquille with Kamloops. The one time amalgamation costs of $85,000 were far outweighed by the projected annual cost avoidance of $600,000.

Property Management Operating Expenses

The Property Management Group contributed tremendously to our overall cost reduction effort. The most impressive single measure of their fiscal performance was a 4.7% reduction in unit operating costs from the previous year to $31.72 a square metre. This achievement is even more significant when viewed over the past five years. During that period, our unit operating costs rose by a cumulative total of only 12.1%, compared to a Vancouver Consumer Price Index increase of 66.8%.

Administrative Expenses

Extensive reviews and reductions of virtually all administrative and general expenses combined in their effect to produce a reduction of $2.1 million from the previous year.

Computer Conversion

The complex process of converting all programs to operate on our new distributed Tandem computer system was successfully completed six months ahead of schedule and 10% under budget.

CORPORATION-CLIENT COST REDUCING INITIATIVES

Portfolio Reviews

At the request of Government, a great deal of Corporate effort was devoted to comprehensive reviews, with clients, of all major accommodation and service requirements, with a view to initiating action to reduce costs. Many opportunities were identified in virtually all ministries and, despite the short lead time, by year end, co-operative action had been taken which reduced client accommodation costs by $2.5 million in 1983/84. Even more significant, many initiatives with longer lead times were identified for

implementation throughout the next fiscal year and I expect that, in 1984/85, these efforts will reduce client occupancy costs by a further $12 million.

Several major examples of cost avoidance resulting from these portfolio reviews are included on page 13 of this report.

Energy Management

A section of this report deals at length with the extraordinary achievements of our staff and clients in their co-operative efforts to drastically reduce energy consumption. Having achieved a 31% consumption reduction by the end of our first five-year program, we plan a further 17% reduction for the next five years.

GENERAL

Performance Audits

The Corporation essentially operates as a monopoly in discharging its entrusted mandate of providing accommodation and related services to the ministries of Government. It is most important, therefore, that its performance, in the eyes of its management, Board, Government shareholder and customers, be objectively monitored against meaningful market and customer service reference points, which are clearly independently derived, rather than simply assembled by the Corporation.

Accordingly, during 1983/84, we took some unique steps to obtain totally independent audits of the Corporation's performance in several major areas.

a) We retained the graduate class in Public Administration at the University of Victoria, under the direction of Professor James Cutt, to conduct a comprehensive audit of our Victoria headquartered clients' perceptions of the Corporation's effectiveness.

b) We commissioned A.E. LePage Real Estate Services Ltd., one of the major commercial sales, leasing and property managers in Canada, to audit a large, random sample of leases which the Corporation had negotiated on behalf of its clients in the previous three years. The purpose of this audit was to specifically compare the economics of our leases to real market benchmarks readily available to A.E. LePage.

The results of these audits, in summary, were as follows:

Client Audit

Quoting directly from professor Cutt's Executive Summary,

"Given BCBC's origins, and its awkward mandate as a landlord/central agency, the results of the market audit are encouragingly positive. The tone is best captured by the fact that 72% of clients considered BCBC the best mechanism for discharging the space function in the B.C. Government and, by the virtually universal view, that it represented an enormous improvement over its predecessor."

Notwithstanding this gratifying overall conclusion, the study identified some areas where the Corporation's image, and sometimes performance, needed improvement. These included:

- The perception that the Corporation's prices tend to be higher than market.
- The complaint that our billing system reconciliations were awkward for clients.
- A concern that quality and turnaround times of responses to client pricing challenges were, at times unsatisfactory.
- The feeling that responsiveness and value on some categories of small client requested projects could be improved.
- Concerns that the quality and meaningfulness of client project status reports needed upgrading.
- Suggestions for improving the communication and understanding of Corporate polices by clients.

During the last six months of the fiscal year, major initiatives were undertaken on each of the areas requiring improvement and, in mid 1984/85, exactly one year after the original audit, we plan to have professor Cutt's graduate students do a brief recheck of the same client representatives interviewed last year, in order to measure the effectiveness of these efforts.

Leasing Audit

In reviewing the Corporation's effectiveness in negotiating leases in the open market on behalf of ministry clients, A.E. LePage performed a lease by lease review, against market, of a significant sample of Vancouver and Victoria leases. The review involved 53,400 square metres with an aggregate committed value of $73.8 million.

The study concluded that in the case of Vancouver, the Corporation achieved a:

"13% below market effectiveness which translates to a $1.3 million net present value dollar saving equated to these leasehold interests."

In the case of Victoria, A.E. LePage concluded that:

"the Corporation has been successful in negotiating leases 25% below market."

They found that this advantage represented annual net present value savings of $3.5 million. A.E. LePage went on to state that these results could be broadly extrapolated across the Corporation's leased portfolio during the period analysed, in view of the size and significance of the sample audited.

We were particularly pleased with these findings in view of the general conclusion which they allow to be derived with respect to the Corporation's pricing of its large, owned portfolio. Since findings confirm that our costs are significantly below market on our leased portfolio of some 450,000 square metres and, since it is a fact that our average total revenue on our 1,134,000 square metres of ministry occupied owned space in 1983/84 stood at $123 per square metre, or 5% below the $129 average revenue for leased space, it is reasonable to conclude that, broadly compared, our owned portfolio pricing falls near the bottom end of, or even below, the normal market.

This conclusion is not surprising to the Corporation in view of our conscious policy of pricing at the bottom end of the market spectrum. It is, however, the first time that detailed independent reference points across a major segment of our portfolio have verified that this policy is working.

While we do hope that these results will be accepted by clients as reasonable evidence of good price performance, they form only part of the pricing mosaic. Before we can expect clients served by a monopoly to be satisfied that the supplier's revenues are truly market comparable, all pricing and recovery elements must be analysed. In our case, two key areas remain for pricing review namely:

- Property management building operations costs, which are passed through to our clients and amount to some $70 million of our annual revenue; and
- Overhead cost recovery factors on various corporate activities which, despite significant reductions, still amount to some $24 million, or 10.6% of revenues.

We will be commissioning independent audits of the market comparability of our charges in each of these areas in early 1984/85, and will again be sharing the results with our clients.

Our purpose in pursuing these audits is twofold.

We feel that the customers of a monopoly organization such as ours have a right to independent verification of price performance.

For our first six years, we have been measuring corporate performance by means of year over year improvement of various key indicators. Despite dramatic recorded improvements, we nevertheless feel that corporate accountability will be strengthened and performance objectives become more meaningful, if they are directly derived from independent market benchmarks.

During 1984/85, we plan also to commission the graduate class of Public Administration at the University of Victoria to perform an audit of the performance of the Corporation's Property Management Group as viewed by our ministry tenants throughout British Columbia. Their original audit dealt only with the perceptions of ministry clients who were headquartered in Victoria and who interface primarily with the Corporation's Head Office.

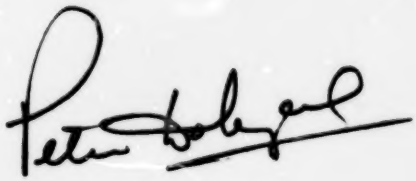
We trust that all of these studies will aid us in refining our objectives and in further improving our performance, while at the same time strengthening the mutually constructive relationship which already exists with our clients.

The Outlook for 1984/85

- **A zero growth in revenues and a rising vacancy factor will require continued aggressive cost reduction initiatives and an effective space disposal effort, if we are to preserve our operating income margin and profit at 1983/84 levels.**
- **Few major new construction projects are anticipated, with Development Group resources being redeployed to help clients achieve some $12 million of accommodation cost reductions primarily through reconfiguration, reduction or relocation of existing tenancies.**
- **A major effort will go into the streamlining and cost reduction of housekeeping activities at various Lower Mainland institutions, responsibilities for which were being transferred to the Corporation effective April 1, 1984.**
- **At least another 5% reduction of the existing staff level is expected to be achieved solely through attrition.**
- **In the area of energy management, the Corporation will further reduce consumption levels by 4%.**
- **Every opportunity area for improvement of corporate performance, which emerges from any of our client or market audits, will be pursued on a high priority basis and clients will be informed of results.**
- **The client panel will continue to serve as a strategic vehicle for updating the Accommodation Manual (our operating agreement with client ministries) and for liaising with clients on cross ministry matters.**
- **We will build on our initiatives of the past year to heighten client orientation and market sensitivity throughout the Corporation, while still delivering the accommodation cost reductions expected by our shareholder, the Government of British Columbia.**

In short, every employee will be encouraged to strive for excellence of performance. As an organization, we expect to move yet another step well up the ladder of excellence, as measured by our clients, the Government, our Board of Directors and by the marketplace.

I know that the highly motivated people we are fortunate in employing will continue to respond well to these challenges and that, once again, with the assistance and support of our clients and our Board, our major objectives will be achieved.



Peter Dolezal
President and Chief Executive Officer

Balance Sheet

	March 31 1984	1983
	$000's	
Assets		
Real estate investments		
Income-producing properties (Note 2)	**513,999**	455,342
Income-producing properties under construction (Note 3)	**37,953**	56,801
Land held for and under development (Note 4)	**17,292**	15,472
	569,244	527,615
Investment in British Columbia Place Ltd. (Note 5)	**205,000**	205,000
Properties held for disposition	**1,905**	2,297
Corporate properties and equipment (Note 6)	**9,694**	10,227
Unamortized debt discount and issue expenses	**36,186**	43,767
Other assets (Note 7)	**32,740**	23,304
	854,769	812,210
Liabilities and Equity		
Long-term debt (Note 8)	**489,719**	476,794
Notes payable to the Province of British Columbia (Note 9)	**130,867**	141,788
Short-term debt (Note 10)	**79,843**	51,818
Other liabilities (Note 11)	**49,546**	44,455
Contributions by the Province of British Columbia (Note 12)	**62,427**	63,100
Retained earnings	**42,767**	34,255
	854,769	812,210
Commitments (Note 13)		

On Behalf of the Board:

George A. Rigsby, Director

Dennis F. Truss, Director

The accompanying notes are an integral part of these statements.

Auditors' Report

To the Lieutenant-Governor-in-Council
Province of British Columbia

We have examined the balance sheet of British Columbia Buildings Corporation as at March 31, 1984 and the statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of British Columbia Buildings Corporation as at March 31, 1984 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.
CHARTERED ACCOUNTANTS

Vancouver, British Columbia, Canada
May 11, 1984

Statement of Income

	Year ended March 31	
	1984	1983
	$000's	
Revenue		
Rentals	**217,084**	194,908
Other income	**9,975**	11,800
	227,059	206,708
Expenses		
Property management	**56,249**	54,161
Leases	**45,181**	41,398
Depreciation and amortization	**25,284**	22,497
Utilities	**16,733**	16,651
Property taxes and grants	**9,515**	8,430
General and administrative	**9,021**	9,335
	181,983	152,472
Net income before interest	**65,096**	54,236
Interest (Note 14)	**56,584**	37,657
Net Income	**8,512**	16,579

Statement of Retained Earnings

	Year ended March 31	
	1984	1983
	$000's	
Balance, beginning of year	**34,255**	17,676
Net income	**8,512**	16,579
Balance, end of year	**42,767**	34,255

The accompanying notes are an integral part of these statements.

Statement of Changes in Financial Position

	Year ended March 31	
Financial Resources Provided By:	**1984**	1983
	$000's	
Operations		
Net income	**8,512**	16,579
Charges not requiring current cash outlay		
Depreciation and amortization	**33,387**	26,769
Cash flow from operations	**41,899**	43,348
Long-term debt	**19,250**	229,062
Short-term debt	**27,825**	39,818
Properties returned to the Province	**392**	33,805
Increase in other liabilities	**5,091**	1,553
	94,457	347,586
Financial Resources Used For:		
Real estate investments	**85,578**	86,209
Reduction of notes payable to the Province	**11,121**	25,851
Reduction of Contributions by the Province	**673**	12,367
Sinking funds	**6,442**	5,239
Corporate properties and equipment, net	**782**	3,785
Investment in British Columbia Place Ltd.	**—**	205,000
Increase in other assets, net	**9,861**	9,135
	94,457	347,586

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements

March 31, 1984

1. Accounting Policies

(a) Capitalization of Costs
Real estate investments and corporate properties and equipment are recorded at cost less accumulated depreciation or amortization. In addition to land and direct development and construction costs, amounts capitalized as real estate investments include interest, property taxes, carrying and other related costs and the applicable portion of general and administrative expenses.

(b) Recognition of Revenue
The Corporation recognizes property income on a project basis at the earlier of 70% of occupancy or substantial completion. Prior to this date, any revenue earned on a property is deducted from the cost of construction.

(c) General Borrowings and Related Interest Charges
The interest on general borrowings attributable to income producing properties under construction and land held for and under development is added to the cost of these assets, and the interest on general borrowings attributable to all other assets is expensed in the period to which it relates.

(d) Depreciation and Amortization
Real estate investments and corporate properties and equipment are depreciated or amortized on an individual basis by the straight-line method over their estimated useful lives or lease terms. The Corporation does not anticipate any salvage or residual values in setting its depreciation rates. Depreciation is prorated by month in the year of acquisition or disposal.

The estimated useful lives or lease terms of income-producing and corporate properties are between five and forty years. The estimated useful lives of all other assets are between three and ten years.

(e) Income Taxes
The Corporation is exempt from Federal and Provincial income taxes.

(f) Sinking Funds
Payments made to sinking funds with respect to retirement provisions of sinking fund bonds and debentures are netted against long-term debt until such time as the bonds or debentures are redeemed and cancelled. Interest earned on the sinking funds is treated as interest income with a corresponding increase in the sinking funds.

(g) Amortization of Debt Discount and Issue Expenses
Debt discount is amortized by the effective rate of interest method and issue expenses are amortized on a straight-line basis, both over the terms of the applicable notes.

(h) Foreign Exchange
During the year, the Corporation adopted the recommendations of the Canadian Institute of Chartered Accountants for foreign currency translation. Pursuant to these recommendations, monetary liabilities are translated at the rate in effect at the balance sheet date unless covered by forward exchange contracts, in which case they are translated at contract rates. The related interest expense is translated at average rates for the year. Unrealized foreign currency gains or losses on long term monetary liabilities are reported as a deferred charge or credit and amortized over the remaining terms of the related liabilities on a straight-line basis. This change is not being applied retroactively because the effect of restatement is not significant.

2. Income-Producing Properties

	1984	1983
	$000's	
Net book value:		
Cost	**622,099**	545,329
Accumulated depreciation	**(108,100)**	(89,987)
	513,999	455,342
Activity:		
Net book value, beginning of year	**455,342**	411,063
Cost of properties acquired, net	**10,201**	23,543
Cost of properties transferred from income-producing properties under construction	**72,405**	42,098
Depreciation expense	**(23,949)**	(21,362)
Net book value, end of year	**513,999**	455,342

3. Income-Producing Properties Under Construction

Balance, beginning of year	**56,801**	37,602
Direct development and construction costs	**46,892**	54,048
Capitalization of interest	**3,184**	3,111
Capitalization of general and administrative expenses	**3,481**	4,138
Cost of properties completed and transferred to income-producing properties	**(72,405)**	(42,098)
Balance, end of year	**37,953**	56,801

4. Land Held For and Under Development

Balance, beginning of year	**15,472**	14,103
Capitalization of interest and property tax	**1,540**	1,551
Acquisitions (disposals), net	**280**	(182)
Balance, end of year	**17,292**	15,472

Notes to the Financial Statements

March 31, 1984

5. Investment in British Columbia Place Ltd.

The Corporation owns the only outstanding share of British Columbia Place Ltd. (B.C. Place) and has an equity investment of $205 million in that company. B.C. Place is a British Columbia Crown corporation which is developing a major site at False Creek in Vancouver, including B.C. Place Stadium which became fully operational in June 1983. Its summary financial statements are as follows:

British Columbia Place Ltd.
Balance Sheet

	March 31 1984	1983
	$000's	
Assets		
Land and development costs	**144,974**	109,635
Stadium	**124,244**	110,574
Other assets	**17,633**	7,714
	286,851	227,923
Liabilities and Equity		
Accounts payable and accrued liabilities	**16,462**	22,923
Notes and debentures payable to the Province of British Columbia	**65,551**	—
Equity investment by shareholder, British Columbia Buildings Corporation	**205,000**	205,000
Deficit	**(162)**	—
	286,851	227,923

Statement of Stadium Operations

	Year ended March 31, 1984
	$000's
Revenues	**7,192**
Expenses	**4,968**
	2,224
Depreciation and amortization	**2,386**
Loss	**162**

The accounting policies of B.C. Place are consistent with those of the Corporation except for depreciation of the Stadium structure costing $101 million which is on the sinking fund method.

Under the British Columbia Place Act, the rights of the shareholder of B.C. Place are exercisable by the Minister of Finance for British Columbia and, accordingly, the investment is accounted for in the Corporation's accounts at cost. Any future dividends declared by B.C. Place will accrue to the Corporation and will be included in income.

6. Corporate Properties and Equipment

	1984	1983
	$000's	
Office and data processing equipment	**6,451**	6,355
Corporate properties and leasehold improvements	**4,484**	4,843
Maintenance equipment	**1,963**	1,897
Vehicles	**1,601**	1,607
	14,499	14,702
Accumulated depreciation and amortization	**(4,805)**	(4,475)
	9,694	10,227

7. Other Assets

Cash	**—**	3,196
Temporary investments	**5,000**	8,000
Accounts receivable		
- Province of British Columbia	**24,063**	8,782
- Other	**2,423**	2,764
Deferred foreign exchange loss	**858**	—
Prepaid expenses	**396**	562
	32,740	23,304

8. Long-Term Debt

Total outstanding:

	1984			1983		
	Number of Series	Average Effective Interest Rate	Principal **$000's**	Number of Series	Average Effective Interest Rate	Principal $000's
Payable in Canadian currency	26	13.44%	**470,741**	25	13.54%	452,657
Payable in United States currency (US $32,000,000)	2	13.03%	**40,835**	2	13.03%	39,552
			511,576			492,209
Sinking funds on deposit with the Minister of Finance, Province of British Columbia, relating to long-term debt of $243,041,000 (1983 - $224,957,000)			**(21,857)**			(15,415)
			489,719			476,794

Coupon rates on the long-term debt range from 3.25% to 15.69%.

The United States currency debt was translated to Canadian currency at the exchange rate prevailing at March 31, 1984, increasing the liability by $1,283,000.

At the option of the Minister of Finance for Canada, Sinking Fund Debentures with an aggregate principal of $165,041,000 maturing between 1997 and 2003 may be called prior to maturity under certain conditions on six months written notice.

The Province of British Columbia has unconditionally guaranteed the principal and interest on all long-term debt issued by the Corporation.

Issue during the year ended March 31, 1984:

Series	Coupon Rate	Maturity Date	Principal
			$000's
F-1	10.92%	June 10, 2003	**18,084**

Aggregate sinking fund and principal payments on all outstanding issues for each of the next five years:

	$000's
1984/85	**9,358**
1985/86	**20,171**
1986/87	**50,380**
1987/88	**162,298**
1988/89	**16,298**

Notes to the Financial Statements

March 31, 1984

9. Notes Payable to the Province of British Columbia

	1984	1983
	$000's	
Interest free promissory notes due March 31, 1992, callable on 30 days notice	**80,667**	91,788
Interest bearing promissory notes due June 30, 1984, redeemable or callable on 30 days notice	**50,000**	50,000
	130,667	141,788

The interest free promissory notes are payable semi-annually in varying amounts over their terms.

The notes due June 30, 1984 bear interest rates which fluctuate monthly according to the Bankers' Acceptance rate.

Payments over the next five years:

	$000's
1984/85	**61,007**
1985/86	**11,007**
1986/87	**12,007**
1987/88	**11,007**
1988/89	**11,007**

10. Short-Term Debt

Short-term notes, maturing at varying dates to May 8, 1984	**69,643**	—
Promissory note, due May 14, 1984 bearing interest at 10.55%	**10,000**	25,000
Bankers' acceptances	**—**	26,818
	79,643	51,818

The short-term notes are payable to the Minister of Finance for British Columbia. These notes represent issues by the Ministry of Finance in United States currency which are fully hedged. The effective interest rates range from 9.64% to 10.21%, and average 9.99% for the notes outstanding.

The promissory note is also payable to the Minister of Finance for British Columbia.

11. Other Liabilities

Due to bank, unsecured	**3,150**	—
Accounts payable and accrued liabilities	**29,593**	27,386
Retentions on contracts	**4,521**	5,270
Accrued interest payable		
- Province of British Columbia	**3,662**	3,574
- Other	**8,620**	8,225
	49,546	44,455

12. Contributions by the Province of British Columbia

Balance, beginning of year	**63,100**	75,467
Properties returned to the Province, net	**(673)**	(12,367)
Balance, end of year	**62,427**	63,100

13. Commitments

The Corporation estimates that the cost to complete projects under construction will be $24,000,000 of which $8,000,000 has been committed.

The Corporation has entered into leases with third parties to provide space for its client ministries and its head office for varying periods up to the year 2003, at a total aggregate net rental of approximately $152,000,000. Most leases are for between five and ten years and include renewal options.

Minimum annual lease payments which will be charged to operations in subsequent years, for leases in effect at March 31, 1984:

	$000's
1984/85	**33,000**
1985/86	**26,000**
1986/87	**21,000**
1987/88	**17,000**
1988/89	**14,000**
Post 1988/89	**41,000**
	152,000

14. Interest

	1984	1983
	$000's	
Interest expense	**65,759**	52,095
Amortization of debt discount and issue expenses	**7,698**	4,272
Amortization of foreign exchange loss	**425**	—
	73,882	56,367
Deduct:		
Interest assistance	**10,000**	10,000
Interest capitalized	**4,590**	4,401
Interest earned	**2,708**	4,309
	17,298	18,710
	56,584	37,657

The Province of British Columbia has agreed to provide assistance of up to $10 million per annum towards the interest expense incurred by the Corporation in connection with its investment in B.C. Place, until the earlier of 1992 or such time as the cash flow to the Corporation from its investment exceeds the related interest expense.

15. Related Party Transactions

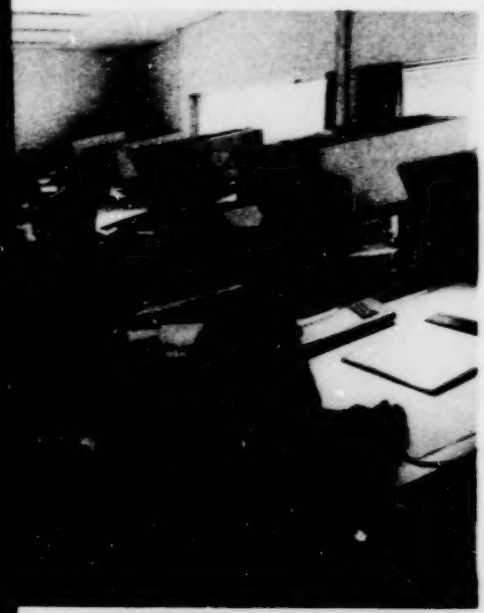
The Corporation is incorporated under the British Columbia Buildings Corporation Act as a Crown corporation of the Province of British Columbia, and is an agent of the Crown.

The Corporation received 96% of its total revenues from Provincial Government ministries. These revenues consist primarily of rents that are determined with reference to market; however, in such cases where comparable market rates do not exist, rents are based on the amortization of the capital costs.

During the year ended March 31, 1984, the Corporation acquired additional properties from the Province and its agents. These properties had an aggregate value of $1,323,000 which was determined by reference to market values.

Not Just Containment—A Dramatic Drop in Costs

The President's report outlines initiatives taken by the Corporation to assist Government ministries to reduce the overall accommodation costs of their programs. These include reducing overhead, operation and maintenance and energy costs, conducting reviews of client space portfolios to maximize space utilization, and a continuation of the Corporation's Manpower Reduction Program. These activities have resulted in numerous specific savings for our clients and for our shareholder, the Province of British Columbia.



In Victoria some ministries have moved to more economic office space outside the downtown core.

Out of the Downtown Core

A portfolio review by the Corporation, working in close co-operation with its ministry clients, has identified surplus and under utilized space which can be dropped or reassigned to produce accommodation cost savings. For example, the ministries of Labour and Lands, Parks and Housing have moved just north of the Victoria city limits to the Municipality of Saanich, where modern leased office space provides overall savings and allows for a consolidation of staff and services.

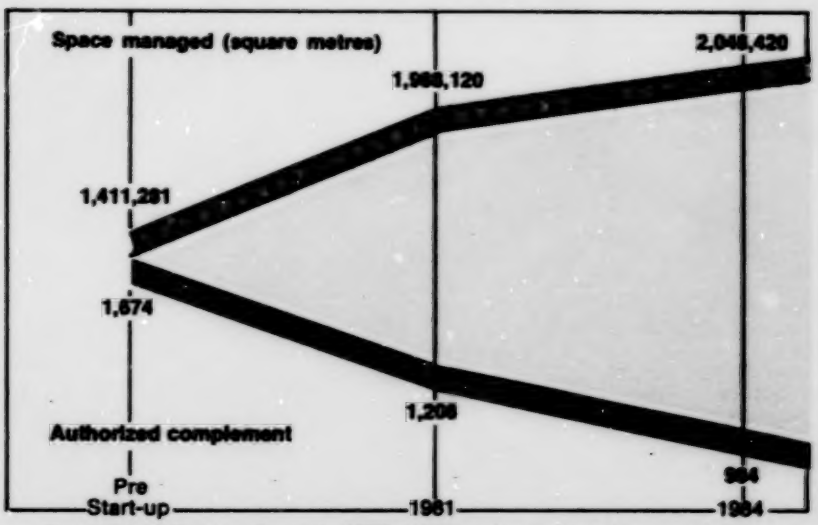
For Labour, the move will result in a $150,000 saving in 1984/85 and reduce space usage by 293 square metres. The move of the Lands and Survey Branch of Lands, Parks and Housing from downtown will save $241,000 in 1984/85 alone, and more than $1.2 million over the term of the lease.

Also in Victoria, work was completed during the year on the planned consolidation of the Ministry of Provincial Secretary and Government Services from six separate locations into a single accommodation. This move, scheduled for the spring of 1984, will reduce their overall space usage by 19.7 per cent. Expected savings to the Ministry in the first year, including costs of renovations and moving, will be approximately $190,000.

In Vancouver, a planned move of the B.C. Utilities Commission into corporate owned space in Robson Square will reduce space usage by more than 10 per cent and will result in a savings to Government of $1.8 million over the next five years.

Attrition Based Staff Reduction

Starting a new Corporation required the combined, specialized, creative talents of many people, but from the outset there was a conscious decision not to staff up for peak requirements. This policy was strictly adhered to in establishing initial staff levels and continued as the Corporation became fully operational and more sophisticated in its management systems and operating procedures. It was realized early that the number of people required to get the new corporation up and running would be greater than the number required for ongoing services once it was operational. As a consequence, each corporate annual plan has forecast attrition based reduction in overall authorized positions, despite successive annual increases in the



The graph reflects a dramatic 152% increase in productivity resulting from a substantial reduction in the number of staff positions, combined with an increase of 45% in portfolio.

amount of space managed. From 1,674 positions, prior to start up, the attrition based personnel reduction program, coupled with the Early Retirement Incentive Plan introduced this year, has reduced the authorized staff complement to 964 at March 31, 1984. In addition, there has been a corresponding reduction in the use of casual staff.

With the completion of the Legislative Buildings renovation program, the Corporation agreed to a Government request to become totally responsible for all maintenance activities at the Buildings. All Provincial Secretary and Government Services staff previously engaged in that work were offered employment with the Corporation. Another three staff members were absorbed with the responsibility for management of the Robson Square Media Centre in Vancouver. At year end, despite the addition of these 33 people, we were operating with 170 fewer staff than in 1983.

Service and Maintenance Levels

In line with the joint Client and Corporation portfolio review conducted during the year, our Property Management Group has continued to negotiate reductions in the scope and frequency of service provided to produce savings while retaining acceptable standards. Savings, primarily in cleaning costs, resulted in credits of $1.4 million being passed on to ministry clients in 1983/84.

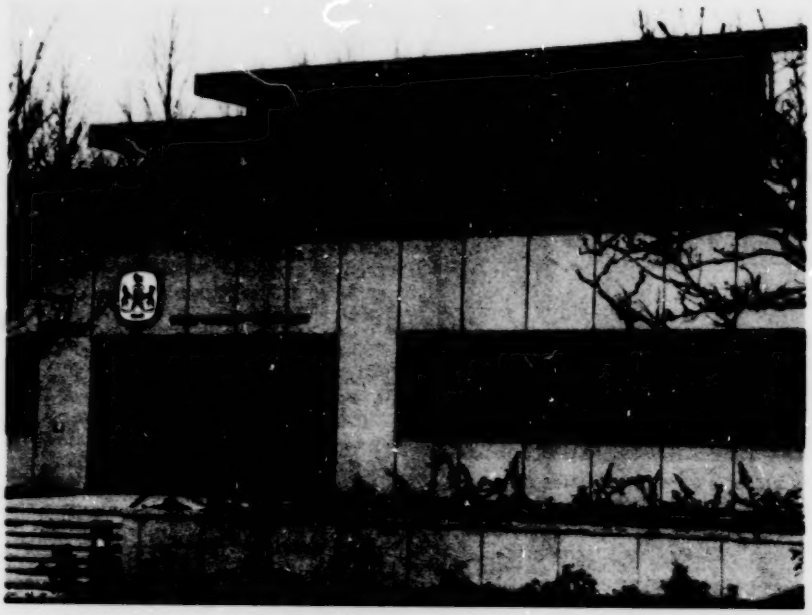
Over the past six years, the portfolio managed by the Corporation has increased by 45 per cent to over two million square metres. However, the unit cost for providing property management services has increased by only 12.1 per cent. This compares to a 66.8 per cent rise in the Vancouver Consumer Price Index during the same period.

North Vancouver Courthouse

Major construction projects underway during the year included the Vancouver Island Regional Correctional Centre in Victoria, the Chilliwack Health and Human Resources Centre, the Prince George Highways Garage and Courthouses at North Vancouver, Kamloops and Port Alberni.

Real economies were realized where additional financing charges and loss of revenue were avoided as projects were completed on time or ahead of schedule, and within budget.

Effective cost control, a favourable tendering climate and the application of value management techniques helped to further reduce costs. In addition, future savings were assured through built in economies such as computerized mechanical control systems which maximize energy savings through more efficient performance of heating, air conditioning and ventilation systems.



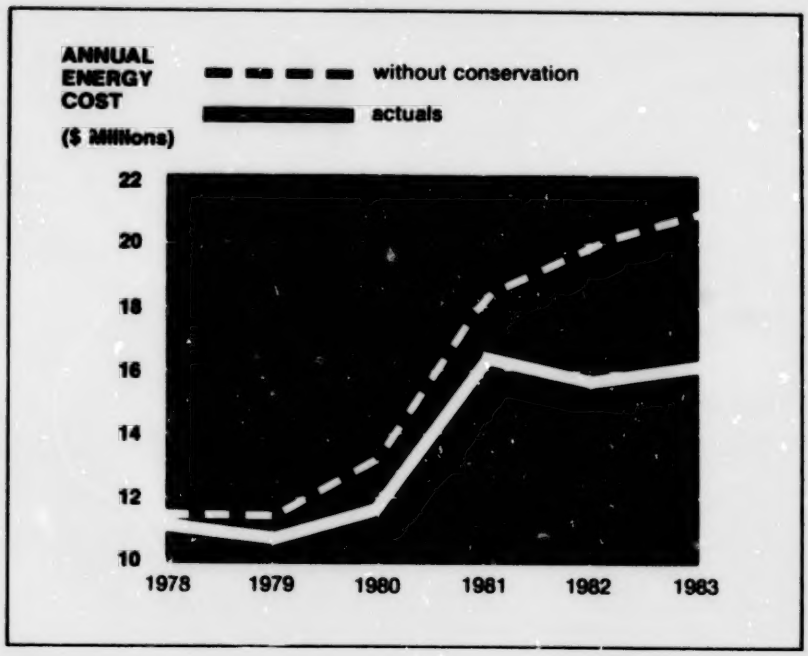
The North Vancouver Courthouse, completed in November, replaces temporary portable building units. With a construction cost of $4.1 million, the building was completed under budget and on schedule.

Five-year energy plan exceeds 25 per cent reduction target

Energy consumption has been reduced 31.2 per cent over the past five years, yielding a saving of $11.3 million including $4.7 million in 1983 alone. With a capital cost of only $7.5 million, the program has already paid for itself and is accumulating ongoing dividends. The support of both clients and staff for the program has been so encouraging that a new ambitious five-year plan calls for a further 17 per cent reduction.

The most significant energy savings in the Province were made at the Parliament Buildings and adjacent areas in Victoria, where energy consumption was reduced by 47 per cent. Additional significant savings were achieved in downtown Victoria and the Woodlands complex in New Westminster.

A full range of conservation measures was used to gain the savings; retrofits to boilers, modifications to heating and ventilating systems, computerized control systems, insulation and, most important, the co-operation of people in client ministries. Ministry staffs made an appreciable contribution by becoming conservation conscious in their work.



Energy Conservation Engineer for the Lower Mainland Kevin Kwok (at terminal), Building Superintendent Terry Larsen, and Power Engineer Brian Puhl in the boiler-room at the Riverview-Valleyview complex (Port Coquitlam). Computerized control systems have been installed at this residential institution to gain further energy savings. Over the five years, fuel consumption at Riverview-Valleyview has been reduced 34 per cent, accumulating cost savings of $ 2,183,000.

Board of Directors

Thomas A. Toynbee, Chairman
Businessman
Ganges, British Columbia

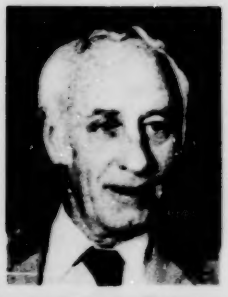
Peter Dolezal
President and Chief Executive Officer
British Columbia Buildings Corporation
Victoria, British Columbia

Honourable James R. Chabot
Provincial Secretary and
Minister of Government Services
Province of British Columbia

* Robert E. Parkinson
Businessman
Victoria, British Columbia

* George A. Rigsby
Rigsby, Lea, Barr and Co.
Quesnel, British Columbia

* Dr. Gordon M. Shrum
Vancouver, British Columbia



Robert Watters
Retired Businessman
Vancouver, British Columbia

Dennis F. Truss
Vice-President Administration and
Chief Financial Officer
British Columbia Buildings Corporation
Victoria, British Columbia

Evan M. Wolfe
Businessman
Vancouver, British Columbia
[from January 31, 1984]

* Gilbert J. Hardman
President
British Columbia Place Ltd.
Vancouver, British Columbia
[until January 31, 1984]

* members of Audit Committee

CORPORATE MANAGEMENT

President and Chief Executive Officer Peter Dolezal

General Counsel and Assistant Secretary	Stephan Marmash

Planning and Client Services Group
Vice-President Bryan Wilson

Client Services	Directors Bob Clemenhagen, Bill Robertson
Client Services Administration	Manager Ted Meadley
Space Management	Manager Gary James
Pricing and Real Estate	Manager John Robinson

Development Group
Vice-President John Davies

Programming and Estimating	Manager Ben Vivian
Project Management	Manager Peter Moyles
Technical Standards and Research	Manager Peter McKenna

Property Management Group
Vice-President Al Kemp

Region 1	Director Alex Thomson
Region 2	Director Evan Brewer
Region 3	Director Don Lyster
Technical and Energy Management	Manager Jack Meredith
Administrative Support	Manager Bill Young

Administration Group
Vice-President and Chief Financial Officer Dennis Truss

Management Systems	Manager Dennis Jaques
Corporate Controller	Brian Kennedy
Leasing and Corporate Purchasing	Manager Ray Cantelon
Human Resources and Corporate Affairs	Manager Bill Heschuk
Internal Audit	Manager Michael Grannum
Corporate Secretary	Michael Grannum

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Corporate Affairs
Manager

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Peat, Marwick, Mitchell & Co.
Chartered Accountants
Vancouver, B.C.

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